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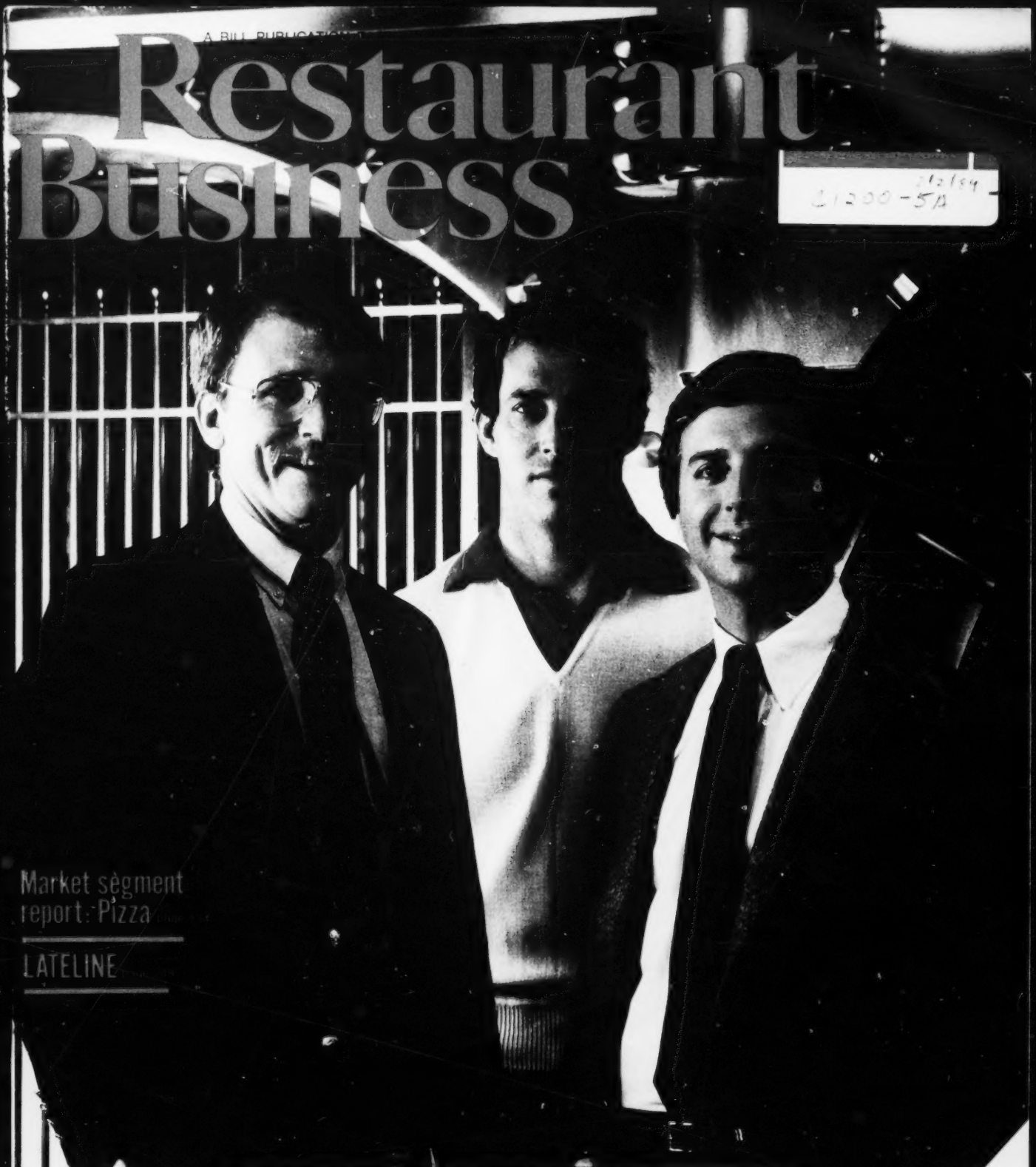

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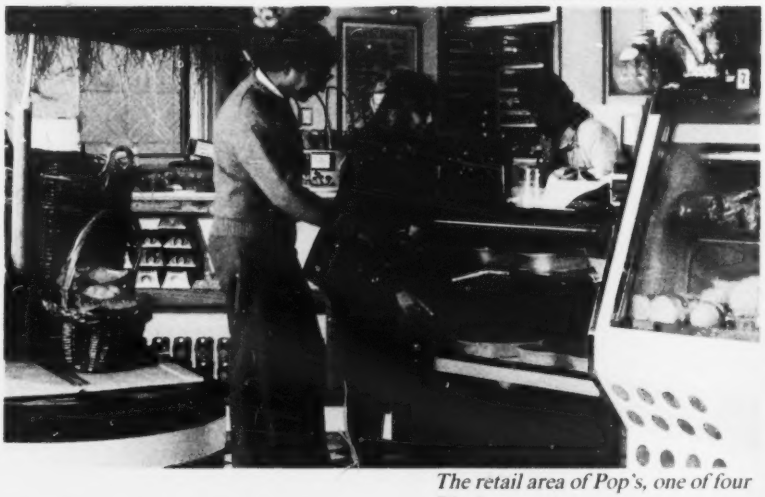

The retail area of Pop's, one of four Big 4 concepts.

COVER STORY

Financial Management
Savvy financial planning can make or break an otherwise promising restaurant. In this special cover story, *RB* analyzes the long term financial objectives of Big 4, a Phoenix-based multi-concept chain set to grow from 10 to 17 units in 1984. An accompanying article explores the financial considerations for evaluating and making business decisions 159

On the cover are Big 4's partners (l-r): Rich Rabin, Lee Cohn, and Bill Marcus.

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Cover Photo by Rick Rusing

Rocky Rococo's pizza by-the-slice satisfies lunchtime customers.

Pizza turns chic as sales soar

by Jacque White Kochak

In New York City, Joe at the corner pizzeria serves a thin-crusted product with spicy sauce, just a little cheese, slices of Italian sausage, and lots of green pepper in a small storefront. He's the only employee, and he knows most of his customers by name.

In Hollywood, a high-style chef serves a product he also calls pizza, but his is cooked in a wood-burning stove, topped with smoked lamb, sautéed eggplant, and roasted peppers, and this is served to movie stars.

They're both in the same blossoming business, one that is becoming more competitive and creative as customers become more sophisticated in their preferences. Pizza sales increased 155 percent in the last five years, and new statistics from the Restaurant Consulting Group Inc. show more pizza restaurants in the U.S. than hamburger restaurants. Pizzerias account for 9.9 percent of all U.S. restaurants, while hamburger restaurants account for only 8.7 percent, according to the group's "RE-COUNT" study.

The future looks rosy, operators across the country agree. "The pizza segment is super bright right now," says Ted Murphy, vice president of marketing for Nebraska-based Godfather's Pizza, with 850 units and annual sales of almost $400 million. "When the country was going through a recession, pizza sales just kept growing. I think it's because of the nature of pizza. Eating pizza is a social, and sharing, occasion. It's fun, and more than just a fueling occasion."

The image of pizza is changing, too. "I see a rapid emergence of pizza as a status food," says Aaron Spencer, who is developing upscale Pizzeria Uno restaurants nationwide. "For so long, pizza was thought of as junk food, but now it is leaping out of that category. People are being creative with pizza. Pizza is being recognized as suitable for a meal rather than a snack, and is making a quantum leap into full-service dining."

As customers' expectations of pizza increase, leading pizza chains have upgraded their products or are in the process of doing so. Giant Pizza Hut led the way in 1980 by introducing its Pan pizza nationwide, while in the meantime increasing sales systemwide by almost 30 per-

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Pizzerias are the most prevalent type of restaurant in the United States today, accounting for 9.9 percent of all restaurants.

cent, says spokesman Mike Jenkins. Pan pizza presently accounts for from 75 to 80 percent of pizza sales, he adds. Now both Godfather's and Domino's are testing pan pizzas, and Pizza Time Theatre will roll out an upgraded pizza soon.

Another significant trend is the emergence of lunch as a significant day-part for some pizza restaurants. Again, Pizza Hut led the way with its introduction in March of an individual pizza. Massive nationwide advertising implanted the idea in customers' minds that pizza could be served fast enough for lunch.

"Pizza Hut does 'generic' advertising that benefits all of us," says Spiro Athanas, vice president of marketing for Bloomington, Indiana-based Noble Roman's Pizza, which operates 78 units primarily in Indiana and Ohio.

"Pizza Hut does missionary work. Thank you very much," adds Wayne Mosley, vice president of Madison, Wisconsin-based Rocky Rococo Pizza, a rapidly growing chain of 30 units in the upper Midwest.

Restaurants that serve video games and life-sized, computerized entertainers along with their pizza are virtually a segment unto themselves, but in this group things are happening, too. Special effects are reaching new heights of creativity, and in response to softening sales some chains are taking a sharp look at both their food and their fun.

What's happening in the world of pizza depends a little bit on what part of the country you're talking about. Pizza continues to be most popular in the Middle Atlantic, New England, and East North Central states, where Italian immigrants and their descendants opened up small pizzerias for neighborhood clienteles. Chains have had a particularly difficult time succeeding in New England and the area around New York City.

Noble Roman's "Lite Size" pizza is part of its new lunch program.

"The big problem with New England is the people's allegiance to the local pizzeria," says Pizza Hut's Jenkins. "And it's also hard to wean people away from the particular taste they're accustomed to. If they give you a try, they say 'Well, it just doesn't taste the same.' However, Pizza Hut is doing a lot better in the area with its regional variations. We do realize the limitations, though."

In the Northeast pizzerias are mostly small, independent, and extremely traditional in their approach. However, small regional chains like Dedham, Massachusetts-based Papa Gino's, which grew out of a neighborhood pizza shop in the predominantly Italian community of East Boston, do thrive. And in New York, stylish eateries are experimenting with the "gourmet pizza" popular in California.

In the Chicago area, pizza is just as popular as in the Northeast, but there pizzerias are a bigger business. Restaurants like Gino's East, recently acquired by Collins Foods, gross as much as $4 million a year serving Chicago's favorite, deep dish pizza. Deep dish pizza, reputedly invented by Ike Sewell at the original Pizzeria Uno, gave birth to the pan pizza popularized by Pizza Hut.

Pizza is so popular in Chicago that pizzerias fill eight pages of the city's phone book, according to a spokesman for the Chicago-Illinois Restaurant Association. Local chains dominate the market, including nine-unit Giordano's; Jake's International, in the suburbs; Barnaby's, owned by Bally Manufacturing; Nancy's; Connie's; and Edwardo's.

The rest of the country belongs to the national chains and to strong regional chains with names like Big Cheese Pizza, Straw Hat Pizza, Noble Roman's, Rocky Rococo, Panterais, Piece of the Pie, and Marino's. They are particularly popular in the Midwest, where pizza and

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Prego's wood-burning ovens produce distinctive, upscale pizzas.

Pizza ranges from the old standby sausage-and-mushroom served at pizzerias across the country, to haute cuisine specialties prepared by the likes of Prego and Spago.

beer seems to be the chief diet of college students, young dating couples, and families.

Pizza is least popular in the western Sunbelt states and the Far West. Only 6.1 percent of restaurants in the West South Central region are pizzerias, and only 7.7 percent in the Pacific states.

Restaurant Business interviewed restaurant operators throughout the country to gather details about how they respond to significant trends. Here's a round-up of strategies.

Gourmet pizza

Wolfgang Puck at Spago in Los Angeles is widely given credit for inventing "gourmet pizza," though his assistant Wendy Matthews modestly says that Chez Panisse served the exotic product first. Nevertheless, Spago has become famous for its unusual variations on the usual tomato sauce, mozzarella, and pepperoni.

The first difference is that Spago's pizza is cooked in a very hot wood-burning brick oven, which cooks pizza in about eight minutes and eliminates soggy crusts.

One pizza is made with duck sauce, tomatoes, fresh oregano, garlic, and made-on-premises duck sausage. Another features sun-dried tomatoes, basil, and buffalo-milk mozzarella. Yet another is made with artichokes, shitake mushrooms, leeks, and red peppers.

Spago's pizza looks like a "real" pizza, but tomato sauce is rarely used. Spago serves a full menu. Pizza—priced from $7.50 to $9 and serving two people—is usually an appetizer. Spago's clientele is extremely upscale, mainly well-heeled figures from the entertainment industry.

The two Prego restaurants in San Francisco and Los Angeles, owned by Spectrum Foods, offer more traditional variations on gourmet pizza. Prego's pizza also is prepared in a wood-burning brick oven, because that's the way pizza originally was made in Italy. "At Spectrum, everything is old-fashioned and labor intensive," says president Larry Mindell. "The oven gives the pizza a smoky, wonderful taste. The expense is four times as great, but it is worth it."

Chef Franco Galli makes his own sauces from fresh tomatoes, and uses cheeses imported from Italy. Ten pizzas are offered as entrees, all serving one person and ranging in price from $5.95 to $8.95.

All pizza is thin crusted (Mindell says thick crust is really Sicilian), with dough pulled by hand instead of rolled. Pizzas include "Quatro Formaggi," made with mozzarella, fontina, gruyere, and taleggio cheese. The "Puttanesca," or "woman of ill repute," is made with fresh tomatoes, black olives, capers, cheese, and oregano. The "Della 'Adriatico" is made with slices of vine-ripened tomato, shrimp, mozzarella, and fresh basil; and "Trevisana" is made with Italian ricotta, Italian goat cheese, and mozzarella, topped with slices of imported radicchio and walnuts.

Prego specializes in Northern Italian cooking, but pizza is so popular that it accounts for 30 percent of sales. Sales are boosted by the fact that the oak-burning oven is in full view of customers as they walk into Prego. The oven is also used to make calzones—meaning "sock"—the folded-over and stuffed pizza popular in Chicago and the Northeast. Prego's calzone is filled with Italian ricotta, goat cheese, mozzarella, sausage, fresh basil, and parsley, topped with oil and basil.

Both exotic gourmet pizza and more upscale, traditional pizzas like that at Prego are finding a market in sophisticated centers like New York City, where Cafe Fiorello is serving both. Owner Shelley Fireman serves a changing menu of five pizzas each day, plus a special, at his two restaurants. At one restaurant pizza is primarily an appetizer, at the other pizza appears among the entrees.

"We will put anything on a pizza," says Fireman. "You don't have to have tomato sauce anymore. Who says you have to have sauce at all?" Fireman's selections have included a pizza topped with scallops, crème fraiche, and scallions, as well as

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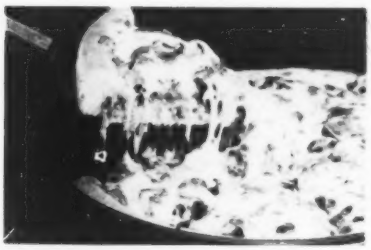

Godfather's, recently acquired by Chart House, specializes in pan pizza.

lamb sausage, goat cheese, and porcini mushrooms. He has topped pizzas with pineapple and coconut, fresh strawberries, and apricot glaze. At a recent Sunday brunch a banana and cocoa pizza appeared on the menu.

Fireman is one operator who isn't making any great claims about the future of exotic pizza toppings, however. "The 'real' public is still happy with pepperoni and Italian sausage," he says. "I personally hate shrimp on a pizza. It gets so crazy that I'm glad to just have a pizza with tomato sauce, garlic, and a little oregano. There are always people who keep on top of trends, but most of the world eats out of habit. They're happy with pepperoni, and there's no reason in the world why they should change."

One Midwestern operator echos Fireman's sentiments. Ted Swan, a Pizza Hut franchisee with units in Michigan and West Virginia, says, "You get a rather strange view of things in a city like New York. There are so many people that you can find a market for anything."

While the more exotic toppings may never find a mass market, the experimental pizzas are the signal flags of a vast trend to upgrade pizza being felt all across the country. Pizza is keeping good company; though the chain won't give details, T.G.I. Friday's has added pizza to its menu. And upscale pizzerias, with a variety of deep-dish pizzas as well as full bars, are expanding.

One is Gino's East in Chicago, a famous old pizzeria that grosses $4 million a year. The restaurant was acquired this year by Collins Foods International, the California-based operator of Sizzler and KFC units. Collins will open 18 Gino's in two years, mainly in Illinois, California, and Australia, and franchising is in the offing. Rich Melman of Lettuce Entertain You Enterprises, who is widely viewed as one of Chicago's most innovative operators, is reportedly involved in the deal as a creative consultant. Chicago also gave birth to Pizzeria Uno and Pizzeria Due, two northside restaurants located on the same block and owned by the same man, Ike Sewell. Sewell opened Pizzeria Uno in 1941, serving the country's first deep-dish pie. "We thought regular pizza wasn't filling enough for a meal," Sewell recalls.

The success of Pizzeria Uno led to Pizzeria Due for overflow crowds. Pizzeria Due alone has served as many as 1,500 people in one evening, drawn by thick pizza piled with fresh ingredients. Success spawned a host of imitators, as well as numerous acquisition offers.

Sewell turned away all comers until he met Aaron Spencer, a Boston-based KFC franchisee. "He camped on my trail for three years, and finally persuaded me by pointing out that everybody was copying my concept anyway, and I wasn't getting any advantage," Sewell says.

Sewell finally sold Spencer the name and all rights to develop worldwide, and there are now 17 Pizzeria Unos from San Francisco to Boston. Spencer says he expects to open between eight and 12 units in the next year.

Spencer took Sewell's already upscale deep-dish product and added a few trendy toppings. He offers pizza with seafood and crabmeat, with steak and cheese, and a "pizza bianco" with sausage, garlic, and mushrooms but no tomatoes. Prices range from $2.75 for an individual pizza to $13.95 for the specialty of the house.

Pizzeria Uno is a full-scale restaurant, with liquor accounting for 30 percent of sales and both salads and appetizers on the menu. One of the most popular appetizers is "pizza skins," potato-flavored pizza wedges served with onions, cheddar cheese, bacon, and sour cream.

Picking up its cue from the success of operations like Pizzeria Uno and Pizza Hut's phenomenally successful Pan pizza, Godfather's is

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Art Gunther, president of Pizza Hut, with his company's individual pan pizza.

Pizza Time Theatre will soon roll out a new, upgraded pizza.

testing an upgraded pizza. The chain, with sales second only to Pizza Hut, is testing a pizza with a buttery brown crust, a chunkie tomato sauce, and much heavier topping. Tests are so successful that Godfather's Murphy predicts the new pizza will soon roll out systemwide.

Lunch pizza

Pizza has traditionally been a dinner item because of preparation time, but several operators have made significant gains in promoting lunch business. When Pizza Hut introduced its individual pizza, lunch sales shot up 65 percent, and for now the chain is concentrating on consolidating those gains.

Another chain with significant lunch-time traffic is Rocky Rococo. A total of 45 percent of the company's sales are generated at lunch, thanks to its pizza-by-the-slice. Pizza-by-the-slice is popular in the mom-and-pop pizzerias of the Northeast, but almost no one has succeeded in popularizing the method elsewhere.

Six varieties of deep-dish pizza slices are sold for $1.25 to $1.49 each, says Mosley. "An operator serving pizza by the slice is taking a significant risk of serving bad food," he says. "It is terribly hard work."

The company will develop 37 Rocky Rococos in the Midwest in the next year, and Mosley attributes the chain's success to the fact that it has always emphasized quality. Spicy tomato sauce is made on-premises, as is whole wheat or regular pizza dough. The chain uses two layers of cheese and an abundance of toppings. Store volumes average $650,000, with 20 percent of sales generated through a drive-through window in stores that have them.

Noble Roman's Pizza increased luncheon sales by introducing three new products. The "Son of a Monster," a scaled-down version of the chain's Monster deep dish pizza, made its debut two years ago. Last year the "Quick Lite Lunch," consisting of a salad bar and breadsticks, was introduced. Breadsticks originally was a way to use leftover pizza dough, but the 94-cent item is so popular that it now accounts for eight percent of sales. The soft breadsticks are served with a ramekin of spicy cheese dip. In June, Noble Roman introduced a "Lite Size" pizza, a 7-inch version of the hand-tossed round pie.

Noble Roman's advertises the "Incredible Waitless Lunch," and

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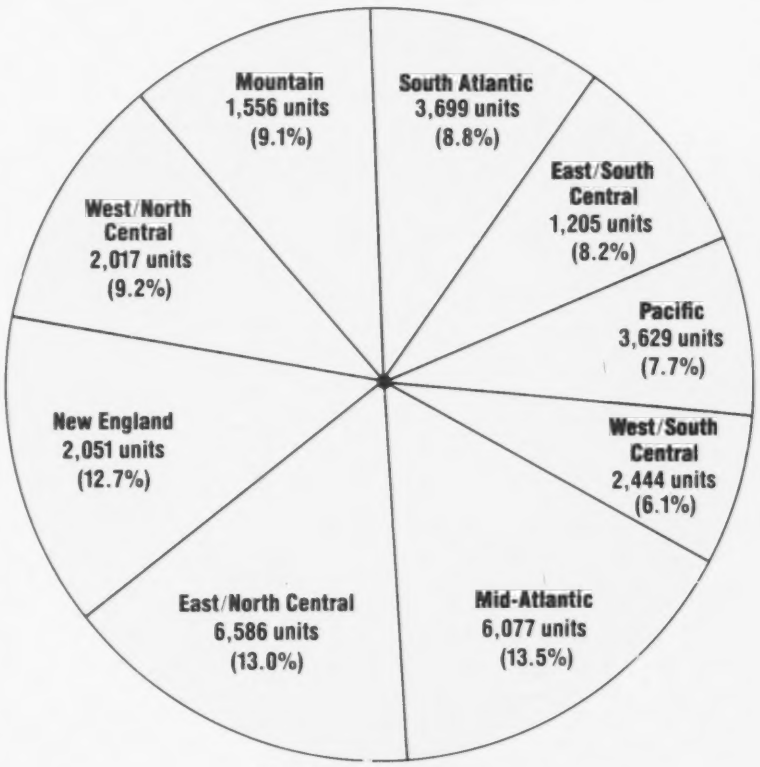
U.S. Pizza Restaurants



29,264 total U.S. units
(9.9% of total U.S. restaurants)
Source: Restaurant Consulting Group, RE-COUNT, Spring 1983

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both the Son of a Monster and the Lite Size pizza are prepared about 15 minutes in advance, though a special holding oven can keep pizzas up to 45 minutes. Luncheon is strictly self-service, so customers can be in and out in a matter of minutes.

The company's new products increased lunch from about 15 percent of sales to about 30 percent, apparently without cannibalizing dinner sales. Store sales in the Indianapolis metro area now average $600,000, and about $450,000 system-wide.

Pizza Hut also reports that improving luncheon business has not cut into dinner business, but Godfather's Murphy says that Godfather's will not aggressively pursue lunch business because of fear of hurting dinner sales.

Entertainment restaurants

Just two years ago the "entertainment restaurant," featuring video games and animated life-sized, computerized entertainers as well as pizza, were the whiz-kids of Wall Street. But about a year ago customers counts started dropping off and profit margins started shrinking. The two big chains, Pizza Time Theatre and Brock Hotel Corp.'s Showbiz Pizza Place, have had to re-evaluate their formulas. Showbiz' Robert Brock described the segment as experiencing a "shake-out."

Brock adds that sales in his Showbiz units are down 12 to 15 percent, partly because of over-saturation of markets and partly because of a need for changing attractions. He is bullish on the future, however. "We expect a lot of our competitors to go out of business, and we don't see many new entries. The mistake our detractors make is to classify us as restaurants, and we're not. We're in the neighborhood theme park business."

To bolster that image, Showbiz is adding "Showscan" theaters. Brock-Trumbull Enterprises, a joint undertaking between Brock and Douglas Trumbull, a well-known figure in movie special effects, owns exclusive rights to the process, which Brock describes as state-of-the-art. Showscan produces far more realistic pictures than conventional movies by filming at a much faster speed. Theaters are being tested in Dallas; Springfield,Mo.; Huntsville, Ala.; and Fairfax, Va. Brock-Trumbull will produce its own movies, mostly action films of 22 or 48 minutes.

Showbiz is also introducing "Showbiz Afterhours" on Fridays and Saturdays after 9:30 p.m. Only teenagers will be admitted for heavily supervised dancing. Many units are being remodeled.

Pizza Time Theatre, with sales this year of $108 million and 261 units nationwide, continues to define itself as a restaurant with entertainment, and for that reason is concentrating on upgrading its pizza product. A nine-step dough-making process is being eliminated to insure more consistency, and the sauce is spicier. Ingredients are more generous, and the price is slightly lower.

Pizza Time Theatre also is changing its entertainment mix by installing wide-screen televisions and producing its own semi-animated cartoons. An attempt is being made to appeal more to parents, and also to maintain the entertainment's "newness." Founder Nolan Bushnell is again developing video games since a non-competition clause with Warner Communications has run out (Warner purchased Atari from Bushnell, who also founded that company). Now a new Pizza Time Theatre sister company, Sente, is developing "experience simulators" that will combine video games with sensory experiences.

Despite problems in this segment, investors continue to put enormous sums of money into more and more sophisticated concepts. One is the 20,000 square foot Magic Pizza Family Restaurant Center in Manhattan Beach, California. This complex, opened by magician Jerry Hasson, combines video games with live magicians and laser technology.

"Our own research shows that people come to this kind of restaurant as an alternative to another form of entertainment like baseball or a movie," says Showbiz's Brock. "Whoever survives in this business has a tremendous future."

For information circle number 89 ➔